B5350-2 2/14/83

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, FEBRUARY 14, 1983 VOLUME XX, NUMBER 7

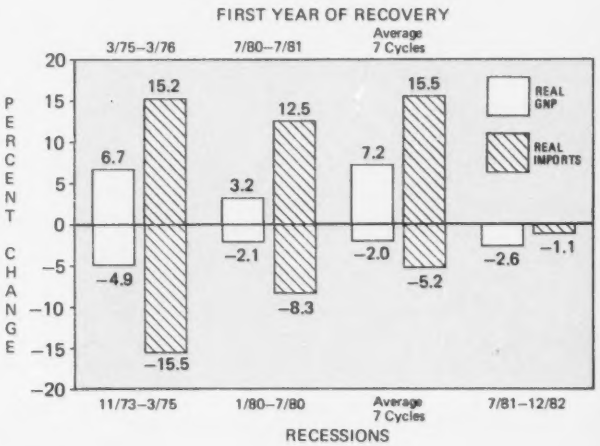
U. S. Recovery Means . . .

Evidence that the U.S. economy has begun to expand once again is accumulating at a rapid pace. Even the unemployment rate—usually a lagging indicator—fell sharply last month. But similar evidence of an economic upturn has not appeared elsewhere. Most other industrial countries are still mired in recession and the developing countries (LDCs)—oil exporting and non-oil exporting alike—continue to struggle with problems aggravated by the global recession. World trade, which is vital to the economic well-being of both the industrial countries and the LDCs, has stagnated over the past two years. In 1981 the volume of world trade declined by 1.2 per cent, the first decline since 1975. Although data are not yet complete, last year does not appear to have been any better for world trade than 1981. Hence, the evidence of improvement in the U.S. economy and the consequent prospects for a sharp rise in U.S. imports are particularly welcome abroad.

Fortunately, the response of imports to an improvement in the U.S. economy is quite rapid. After the two previous recessions, imports recovered essentially all of their losses in real terms in the first year of recovery (see chart). In previous post-World War II recoveries the average percentage growth in imports has been more than twice the percentage improvement in real GNP. Even though real GNP this time may not grow as much as average, nonetheless, imports may be expected to show quick and substantial improvement. The response of imports to the recovery following the brief recession of early 1980 shows that even a weak recovery in GNP generates large benefits to our trading partners in terms of imports. Although it is, of course, too early to forecast the pattern of the present upturn in the U.S., it is likely that within the next year there will be a substantial rise in the inflow of goods.

The historical structure of U.S. import trade suggests the direction which the rise in imports will take. In 1981 the United States received 52.4 per cent of the dollar value of its imports from other industrial countries, 25.6 per cent from the non-oil LDCs and 18.5 per cent from the oil-exporting countries. One decade before, 71.5 per cent of U.S. imports were from the other developed countries, 20.5 per cent were from the non-oil LDCs and only 5.1 per cent were from the oil producers. It is clear that both the oil producers and the non-oil LDCs have made significant inroads into the U.S. import market at the expense of the industrial nations. The sharp escalation in oil prices has accounted for the largest part of this increased market penetration by both the principal oil-exporting countries and some of the LDCs which export oil as part of a more or less broad range of exports—Mexico, for example.

CHANGES IN GNP AND MERCHANDISE IMPORTS
IN CYCLICAL PERSPECTIVE



A similar pattern emerges when the kinds of imports into the U.S. in 1981 and 1972 are compared. In 1981, 7.4 per cent of the dollar value of U.S. imports were classified as food, beverages and tobacco compared with 13.3 per cent one decade before. Fuels (including oil) skyrocketed to 31.1 per cent of U.S. imports in 1981 from 8.6 per cent in 1972. Industrial raw materials fell from 7.3 per cent to 4.4 per cent as the decade progressed and manufactured goods dropped from 67.9 per cent in 1972 to 55.4 per cent in 1981. Every major category of imports fell as a percentage of total imports except for fuels which almost quadrupled over the ten-year period. The increase in market share of U.S. imports by the

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oil-producing countries as well as the sharp rise in the fuel portion in the makeup of U.S. imports suggests that those countries which export oil to the U.S. including such relative newcomers as Mexico, will be among the primary beneficiaries of any upturn in U.S. imports.

. . . Strong Support . . .

A close look at the flow of U.S. imports after the last major recession confirms the import pattern which developed over the past decade and indicates some of the directions which the imports might take during the forthcoming economic upturn and who some of the foreign beneficiaries might be. In 1976 when a U.S. economic recovery was well under way, imports into the U.S. were 25 per cent higher than in 1975 which still showed the effects of the 16-month recession which had ended in March of that year. In the same period, however, imports from the Near East had risen by 68 per cent, imports from Africa and South Asia were up 56 and 43 per cent respectively and imports from Japan had risen by 38 per cent. Much of the rise in imports from the Near East, Africa and South Asia were, of course, the result of rising oil imports from countries in those regions. By contrast Latin America's exports to the U.S. grew by only six per cent.

In 1976 agricultural imports were up 18 per cent and manufactured goods rose by 26 per cent, close

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 2/2/83	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	141.506	– 1.477	+ 3.284
Loans to Depository Inst.	.385	+ .057	– 1.466
Float	2.132	– .259	– .589
Total Reserve Bank Credit	153.770	– 2.015	+ .913
Treasury Deposits with Federal Reserve Banks	2.431	– 1.478	– 5.432
Currency Outside Banks	133.333	– .103	+ 9.381
Member Bank Reserves:			
Required	40.502	– .539	– 1.798
Excess (Deficiency)	.446	+ .108	– .038
Total Reserves Held	40.948	– .431	– 1.836
Net Free Reserves	.309	+ .068	+ 1.354
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	112.188	+ .826	+19.923

Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (1/26/83)	485.9	+ 12.6‡	+ 7.6‡
M2 (December '82)	1,999.2	+ 9.0	+ 9.7
M3 (December '82)	2,403.8	+ 6.7	+ 9.9
L (September '82)	2,866.2	+ 9.5	+ 11.2

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 2/11/83	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.75%	7.85%	8.10%
* Federal Agencies	7.95	8.50	9.20
* Project Notes—Taxfree (46% Taxable Equivalent)	7.59	7.96	8.33
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	8.55	8.75	9.50

‡Finance Company Paper—Prime

5- 14 days	8.25%
15- 29 days	8.25
30- 59 days	8.38
60- 89 days	8.38
90-179 days	8.38
180-239 days	8.38
240-270 days	8.38

‡* Bankers' Acceptances

Mar.	8.20%
Apr.	8.20
May	8.25
Jun.	8.25
Jul.	8.30
Aug.	8.30

‡Industrial Paper—Prime

30- 89 days	8.38%
90-120 days	8.38

†Federal Funds Effective Rate 8.40%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'82	$ 3,101	$ 3,088	$ 3,003
Gross National Product (1972 Dollars)*	4th Q'82	$ 1,472	$ 1,481	$ 1,490
Percent Change, Annual Rate	4th Q'82	– 2.5	0.7	– 5.3
Change in Consumer Prices (all urban consumers)*	Dec '82	– 3.6%	1.2%	4.8%
Change in Producer Prices*	Jan .83n	– 12.0%	2.4%	6.0%
Civilian Employment (Thousands of Persons)†	Jan '83	99,103	99,093	99,688
Unemployment as % of Civilian Labor Force†	Jan '83	10.4%	10.8%	8.6%
Personal Income*	Dec '82	$ 2,637	$ 2,621	$ 2,498
Leading Indicators Composite Index (1967=100)†	Dec '82	132.8	130.8	127.1
Industrial Production Index (1967=100) †	Dec '82	134.7	134.8	143.4
Net Change in Consumer Installment Credit†	Dec '82n	$ 2.19	$ 2.52	–$ 0.03
U.S. Merchandise Trade Balance †	Dec '82	–$ 3.37	–$ 4.09	–$ 1.81
Plant and Equipment Expenditures*	1st Q'83	$316.40(a)	$324.47(a)	$327.72
Private Housing Starts (Thousands of Units)*	Dec '82	1,222	1,404	882
New Construction Expenditures*	Dec '82	$ 239.0	$ 235.8	$ 228.8
Total Business Inventories†	Nov '82	$ 508.6	$ 514.2	$ 521.6
Total Business Sales†	Nov '82	$ 336.4	$ 332.5	$ 344.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

to the overall growth rate of all imports. Within this latter category, however, automotive vehicles, parts and engines showed a 38 per cent rise of which automotive imports from Canada increased by 36 per cent and automotive imports from elsewhere were up by 40 per cent. Japan's export of motor vehicles to the United States in that same period rose by 47 per cent.

Capital goods imports rose by about 14 per cent while nonfood consumer goods, representing a wide range of products mainly from developed economies, were up by 34 per cent. Although every major category of imports into the United States showed substantial improvement between 1975 and 1976, it is clear that the greatest growth occurred in the categories of fuels (i.e., petroleum and petroleum products) and automotive products and the best performance among the nations exporting to the United States were the countries which supplied these products.

. . . For Recovery Abroad

The chart makes it clear that imports respond both rapidly and strongly to upswings in the U.S. business cycle. As the current upturn continues, it is likely that the same rebound in imports which has been evident in the seven previous postwar recoveries will again appear. Indeed, the prospects for an above average resurgence in imports are enhanced by the

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (1/26/83)	118,865	– 1,074	–16,268
New York City (1/26/83)	32,425	– 19	– 1,822
Commercial Paper (1/26/83)	166,584	+ 310	– 789*

*Series redefined: Data prior to December 1, 1982, are not strictly comparable to the data reported after that date.

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/26/83)	216,409	– 1,906	+19,818
New York City (1/26/83)	60,684	– 675	+ 5,326

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/26/83)	502,509	– 2,669	+32,730
New York City (1/26/83)	117,618	– 1,250	+ 8,974

Financial Markets

	Friday 2/11/83	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.38%	– .15	– 6.45
180-Day Bills†	8.67	– .15	– 6.58
Longest Bills†	9.00	– .10	– 6.25
Recent Issues:			
9¼s 1/31/85	9.65	– .15	
10s 12/31/86	10.15	– .13	
10⅞s 2/15/93 (When Issued)	10.80	– .18	
10⅜s 11/15/12 (When Issued)	10.92	– .18	
Municipals:			
Bond Buyer–20 Bond Index* (2/10/83)	9.72%	– .02	– 3.37
Blue List Total ($ Million)	$ 987	+ $152	+ $ 214
30-Day Visible Supply ($ Million)	$2,123	+ $197	+ $ 811
Total	$3,110	+ $349	+ $1,025
Corporates:			
Moody's Aa Composite (2/10/83)	12.69%	+ .04	– 3.13
30-Day Visible Supply ($ Million) ‡	$ 410	– $140	NA
Stocks (2/10/83):			
Dow-Jones Averages			
Industrials	1,087.75	+ 9.84	+ 253.08
Transportation	479.75	– 5.32	+ 130.84
Utilities	123.89	– 1.16	+ 18.73
65 Stocks	428.74	+ .31	+ 100.42
Standard and Poor's 500 Stocks	147.50	+ 1.36	+ 33.07
N.Y.S.E. Composite Index	85.10	+ .81	+ 18.99
N.Y.S.E. Avg. Daily Vol. for Week (000's)	85,160	+ 6,500	+ 35,982

* 46% Taxable equivalent 18.00%.
‡Series redefined: Historical date not available.
† Bond equivalent.

International Rates

	Friday 2/11/83	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.63%	8.38%
1 month	8.63	9.00
3 month	8.94	9.31
6 month	9.06	9.63
1 year	9.63	10.00
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.70%	11.90%
Long Term (7 to 15 yrs.)	11.85	12.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (2/11/83)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02111	47.37
Canada	.8167	1.2244
Denmark	.1172	8.5300
France	.1467	6.8160
Germany	.4163	2.4020
Italy	.0007218	1385.30
Japan	.004264	234.50
Mexico	.006289	159.00
Netherlands	.3762	2.6580
Switzerland	.4995	2.0020
U.K.	1.5460	.6468

continuing strength of the U.S. dollar which adds to the attractiveness of imports in dollar terms. Further, falling oil prices may reduce the total dollars spent on oil imports and allow an expansion in other import categories.

Although the oil exporters and the purveyors of manufactured goods, principally automobiles and consumer items, will be the principal beneficiaries, it does not appear likely, that exporters of capital goods to the U.S. will see an early improvement. The present low level of capacity utilization and capital investment in this country will delay growth in capital goods imports until later in the cyclical upswing. However, the overseas benefits of rising imports will be widespread. Not only will the oil-exporting LDCs benefit directly, but the fillip given to world trade by the U.S. recovery will generate generous secondary benefits in terms of exports from other LDCs to the oil-exporting and industrial countries. Thus, by its global impact in stimulating world trade, the U.S. economy may well again fulfill its past role as the "engine" of world economic growth. H

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